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C O N F I D E N T I A L SECTION 01 OF 03 RIYADH 009056

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DEPARTMENT PASS TO U.S. SECURITIES AND EXCHANGE COMMISSION

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TAGS: [EFIN](#) [ECON](#) [SA](#)

SUBJECT: THE CAPITAL MARKET AUTHORITY'S NEED FOR ASSISTANCE
IN MARKET REGULATION AND ENFORCEMENT

Classified By: DEPUTY CHIEF OF MISSION MICHAEL GFOELLER FOR REASONS 1.4
(B) AND (D).

11. (U) Summary. From September 11-14, experts from the U.S. Securities and Exchange (SEC) provided a three-day technical assistance seminar on market oversight and enforcement strategies to Saudi Arabia's Capital Market Authority (CMA). The CMA freely shared information and actively engaged with the SEC presenters. Post hopes this will be one of many future SEC technical assistance programs for the CMA in order to strengthen its market regulation abilities. End Summary.

BACKGROUND ON THE SEC DELEGATION

12. (U) The SEC delegation which conducted the technical assistance included Mr. Ethiopis Tafara, Director, Office of International Affairs; Dr. Robert Fisher, Associate Director of Technical Assistance, Office of International Affairs; Mr. Ester Saverson, Associate Director, Office of International Affairs; and Mr. Timothy Warren, Associate Regional Director. Mr. Tafara met with Senior CMA officials to include Commissioners Abdullah Al Abdulgader, a former professor at the Petroleum/Mineral University, and Mohammed Al Shumrani, former Head of Investments at the Saudi Arabian Monetary Agency.

BACKGROUND ON THE CMA

13. (U) On 2 July 2004, the CMA became a regulatory body governed by five board members appointed by Royal Order. The Chairman and CEO is Dr. Abdulrahman Bin Abdulaziz Al-Tuwaijri. The CMA has four Commissioners, Ibrahim Bin Mohammed Al-Romaih, Mohammed Bin Meghnam Al-Shumrani, Dr. Abdulrahman Bin Abdulmohsen al-Kalaf, and Dr. Abdullah Bin Hasan Al-Abdul-Gader.

14. (U) The CMA is modeled after the SEC, and its mission is:

- regulate and develop Saudi Arabia's capital market;
- protect public investors;
- achieve a fair, efficient and transparent market place;
- monitor the issuance and trading of securities; and
- regulate and monitor authorized entities.

15. (U) Since the CMA's 2004 founding, it has authored and advocated for the following laws and regulations, which now form the legal basis for Saudi financial markets:

- 16 June 2004 the Capital Market Law;

--4 December 2004 Listing Rules, Offers of Securities Regulations and Market Conduct Regulations;
--18 July 2005 Securities Business Regulation and Authorized Person Regulation;
--5 July 2006 Publication of Draft Corporate Governance Regulation for public consultation;
--15 July 2006 Real Estate Investment Fund Regulation; and
--26 July 2006 Publication of Draft Investment Fund Regulation for public consultation.

¶6. (U) In the future, the CMA's action plan includes:

--drafting takeover regulations;
--approving investment fund regulations;
--approving corporate governance regulations; and
--drafting stock exchange regulations.

ORGANIZATIONAL STRUCTURE

¶7. (U) The CMA is broken into six divisions: Investor Awareness and CMA Staff Training; Legal and Internal Audit; Administration; Authorization; Corporate Finance; Enforcement; and Market Supervision. Within each division are sub-sections: The Administration Division includes Finance, Information Technology, Administration, and Human Resources; the Authorization Division includes Inspection, Licensing, and Anti-Money Laundering; the Corporate Finance Division includes Mutual Funds, Listing, and Continuous Obligation; the Enforcement Division includes Investigation and Prosecution and Investor's Complain; and Market Supervision Division includes Continuous Disclosure, Surveillance, and Prudential Reporting.

RIYADH 00009056 002 OF 003

REGULATORY CONCERNS

¶8. (U) The SEC's three-day market oversight and enforcement training yielded a great turnout with at least fifty CMA employees participating, including Directors of the Enforcement Division and Corporate Finance, and Commissioners, Abdullah Al Abdulgader and Mohammed Al Shumrani. CMA employees actively participated in discussions and asked questions on problems faced in their market.

¶9. (C) The CMA is highly concerned with the general direction of their markets movement on a day to day basis, especially since the June 2006 market crash. The CMA is concerned with the frequency of market manipulation, how to prove and stop such conduct, and when to take legal enforcement action. The CMA relies on criminal sanctions for its enforcement power, but has no statistics to show how often that power is used. Since the June 2006 appointment of Chairman Al-Tuwaijri, there has been a policy shift on the issue of settling cases. After an internal debate, cases are now being settled. Currently, over 40 senior level board of directors at various companies have been convicted of insider trading, with SAR 60 million (USD \$16 million) the biggest fine.

MEETING WITH THE COMMISSIONERS

¶10. (C) The SEC's Tafara and EconOff also met with Commissioner Abdulgader and Commissioner Shumrani to discuss the CMA's future technical assistance needs. The CMA is interested in regulatory and enforcement training to better compete with already established worldwide markets. To achieve this training goal, the Commissioners asked Mr. Tafara for the SEC's assistance in developing by-laws, requirements and training programs. In addition, the

Commissioners asked for a job-share program in which CMA employees would go to the U.S. and work at the SEC for six to nine months. Currently the SEC offers a two-week training program and a one-week internship program relating to broker-dealers with the National Association of Securities Dealers (NASD). Also, the CMA would like the newest Edgar Database and information technology programs to conduct market surveillance.

¶11. (C) Mr. Tafara assured the Commissioners the SEC would look into training programs, possibly to include a three-month on the job training. However, he noted, basic regulatory training was key, whereas on-the-job training would be a part of a more advanced training package.

¶12. (C) The CMA commissioners indicated the Saudi market's shortcomings to include low investor confidence, uneducated investors, and frequent market manipulation. Investors are not educated on the stock market itself and how it functions. Specifically, the CMA is concerned with oil-related stocks, because their stock price will increase due to oil prices. Due to these concerns, the CMA has introduced an aggressive investor training program to educate investors throughout the Kingdom. This campaign includes brochures distributed widely at banks, television advertisement campaign, and speaker series discussing long-term investments, risks involved in investing, and reading financial statements.

¶13. (C) The CMA officials noted the public frequently blames the CMA for all problems with the stock market, including market crashes and fluctuations, devaluation of specific stocks, Initial Public Offering (IPO) failures. The investors have had unrealistic expectations of financial windfalls based on the high returns initially realized within the first three months the market was open. Due to outsized expectations, many investors have made highly leveraged investments, borrowed money and sold their homes and property to invest their life savings into the market.

¶14. (C) To help stabilize the market, the CMA must approve who raises capital for companies. One of the CMA's biggest problems is managing the market and avoiding interference with the markets when they are too high and too low. Another shortcoming is the lack of educated and experienced financial analysts and broker dealers to assist in the assessment and purchasing of stocks.

WIDE PARTICIPATION KEY TO KSA'S MARKET IMPORTANCE

RIYADH 00009056 003 OF 003

¶15. (C) In 2002, the stock market became open to the wider Saudi public, whereas before it was only open to wealthy Saudis. The first IPO was a telecommunications IPO in which over 5 million Saudis invested. One of the latest IPOs was the King Abdullah Economic City offering in August 2006, which attracted a record 10 million Saudi investors.

THE CMA'S GOALS: AN ACCOUNTABLE AND TRANSPARENT
STOCK MARKET

¶16. (C) The CMA's goal is to achieve a transparent and open market for foreign investors with sophisticated investing mechanisms. Currently the CMA has few rules on market manipulation, but is currently developing additional regulations. Also, the CMA would like their quasi-government controlled stock market to spin-off as an independent authority.

¶17. (C) The CMA is interested in training geared towards enforcement, investigations and regulations. The CMA is concerned that investors see the stock market as the lottery,

rather than a long-term investment with normal cycles of highs and lows. The CMA needs financial analysts and a structured investor education program to teach the novice Saudi investor about the stock market and how it directly relates to the economy of the Kingdom.

COMMENT

¶18. (C) The Saudi market is important because of the high proportion of the public which is currently investing in it. However, a minority of Saudi investors are institutional investors with a sophisticated understanding of the market, whereas the majority have little education or knowledge regarding financial markets. The Saudi market has record high investors with everyday people supporting IPOs, not just big companies and corporations. This is a market to watch for future global developments, especially once foreign investors are invited to participate. The Kingdom has billions in petrodollars flowing in, and much of that money is being cycled into the stock market.

OBERWETTER